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C A S E S T U D Y

How to migrate from premium to luxury?

The case of Claus Porto, a Portuguese 'heritage' soap brand

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CONFIDENTIAL

Abstract

This thesis presents a Case Study on the transformation of the 130 years-old Portuguese personal care brand Claus Porto from a premium soap to a luxury niche lifestyle brand. Claus Porto, together with its parent brand Ach. Brito, was acquired by the Portuguese investment fund Menlo Capital in 2015. Between 2015 and 2017, the Claus Porto team underwent efforts to reposition the brand in the luxury lifestyle segment. The case outlines the characteristics of the luxury industry and the potential benefits of stepping from premium to luxury, leading to the discussion of what the Claus Porto team should do next (in the Teaching Note).

Keywords: Claus Porto, luxury niche brands, premium brands, Portugal

This Direct Research Work Project is a CASE STUDY. It follows the rules for this specific type of Work Project:

"The Directed Research Work Project may be a CASE STUDY, which should include 2 parts:

Part A: Description of a specific situation/problem in an organization (maximum 15 pages), plus case study exhibits, as appendix;

Part B: Teaching Note (maximum 10 pages) with the case synopsis, case objectives and courses where it may be used, suggested questions with discussion and relevant literature (which may be included in the discussion questions). Teaching Note exhibits may also be included as appendix."

Next steps: The plan is to transform this thesis into a Nova SBE teaching case study.

As the Claus Porto team did not yet review the final version, this thesis is confidential.

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PART A: Case Study

1. Introduction

On a balmy night in late October 2017, Francisco Neto, the CEO of the Portuguese personal care company Ach. Brito, and Ricardo Cunha-Vaz, Chairman of the Board, escorted their last guests to the door of the 'Grand Musée du Parfum' in Paris, where they had held the launch event of Claus Porto's limited-edition fragrance, 'Le Parfum,' in celebration of the brand's 130 years anniversary. Closing the door behind their last invitees, they looked back at the scene of the party, where they saw Anne-Margreet Honing, the Brand Art Director, in deep conversation with Lyn Harris, the perfumer and creator of 'Le Parfum', and Aquiles de Brito, the great-grandson of Ach. Brito's founder, and shareholder. Nearby, Maria João Nogueira Mendes, the Head of PR and Communications, was clinking glasses with Nádia Adria, the Head of Sales, and Danielle Mota, the Head of Regulatory Affairs and Quality Assurance.

In July 2015, the Portuguese investment firm Menlo Capital, of which Ricardo was a partner, acquired a majority share of Ach. Brito, which held three brands: Ach. Brito and Confiança, serving the mass and middle markets respectively, and Claus Porto, targeting the high premium segment. One of the major objectives of the acquisition was to realize the potential of the brand Claus Porto by turning it into a luxury niche lifestyle brand. At the time of the deal in 2015, Claus Porto's brand was fragile due to unclear brand image and positioning both in its local and international markets.

The intention to migrate Claus Porto from a premium soap and personal care brand to a global luxury lifestyle brand gave rise to crucial questions: How could Claus Porto become credible as a luxury brand from a country such as Portugal, which was traditionally seen as a production country and not a place of origin of luxury brands? Which part of the product portfolio should be kept, and which part should be reshaped? What distribution partners should Claus Porto cooperate with in order to be positioned as a luxury niche lifestyle brand and to expand its international recognition? Answering these questions would not be easy; while some of Claus Porto's team members had worked with established foreign luxury brands before, no one had experience with building a Portuguese luxury lifestyle brand. In Phase I of the business plan, from 2015 to 2017, the fragrances and formulations were improved, the packaging and visual identity redesigned, and distribution channels and points of sale reviewed, all efforts culminating in the launch of 'Le Parfum' in Paris. However, the team was one year behind the revenue forecasted in the initial business plan. It was time to decide what to do next in order to accelerate Claus Porto's transformation into a global luxury niche lifestyle brand and increase sales.

2. The brand Claus Porto: Story and history up until 2015

The beginning

The brand was founded with the name 'Claus & Schweder' in 1887 by the German gentlemen Ferdinand Claus and Georges Schweder (Exhibit 1) in the historic seaside town of Porto, where they set up their soap and fragrance factory. 'Claus & Schweder' products were wrapped in beautiful Belle Époque inspired packaging, elegantly decorated with romantic patterns and elaborate motifs (Exhibit 2), designed in the in-house lithographic studio (Exhibit 3). The natural resources and scents of Portugal provided inspiration for the brand's fragrances. From the beginning, 'Claus & Schweder' was awarded for the high quality of its fragrant soaps and personal care products at national and international exhibitions and fairs (Exhibit 4).

In 1903, at 24 years old, Achilles de Brito (Exhibit 5) joined 'Claus & Schweder' as book keeper. Due to the course of events during World War I, the German founders left Portugal in 1916 and 'Claus & Schweder' was nationalized. Achilles de Brito left the company and founded the cosmetics firm Ach. Brito in 1918 (Exhibit 6). In 1924, he bought the 'Claus & Schweder' brand and factory and changed the brand name to 'Claus Porto'. In 1981, Achilles de Brito's grandson Aquiles Delfim Ferreira de Brito passed away and left his shares to his two children Sónia and Aquiles de Brito, while the majority share of the company belonged to their uncle.

In 1994, at only 22 years old, Aquiles de Brito, the great-grandson of the founder Achilles de Brito, bought his uncle's shares. Thus, Aquiles became the majority owner of Ach. Brito, while his sister Sónia owned a minority share. It was an emotional decision: "From a business perspective, it was not the best deal; I didn't perform due diligence and mainly wanted to preserve what my ancestors had created. I lost my father very early and wanted to continue what he had worked for," said Aquiles in 2017. The early years were especially hard. In Portugal, Portuguese premium brands were not as popular as the much-favored foreign brands. In addition, the company employees were skeptical. "In their view, the company was run by two kids. And I made many mistakes. But I also got some things right," Aquiles is quoted in 2017. The collaboration with an American distributor in the US market revealed to him that the company could be taken global. He repositioned Claus Porto as a high premium brand and earned the loyalty of retailers and consumers in the US, Canada and the UK.

By the end of the 20th century, Claus Porto enjoyed greater popularity outside of Portugal than in its home country. In the 1990s and early 2000s, the US became Claus Porto's strongest market, thanks to the efforts of the former distributor and the endorsement by Oprah Winfrey as part of her 'Favorite Things' gift guide (Exhibit 7). While Claus Porto was celebrated in the US for its products' unique vintage appeal, high quality and beautiful packaging, the brand was struggling to replicate the same success in other markets. Whereas sister brands Ach. Brito and Confiança were established household names in Portugal, the premium brand Claus Porto struggled to keep up with premium brands from other countries.

The bold move

In 2015, the Portuguese investment fund Menlo Capital bought Sónia's and part of Aquiles' shares and became the majority owner. After a severe economic crisis, Portugal started to regain economic strength and confidence from growing exports, improving consumer confidence, and booming tourism (Exhibits 8-11). More and more tourists from around the globe came to Portugal and fell in love with the country's unique people, land, and character, slowly but steadily turning Portugal's image from a traditional production country to a land of beautiful skilled handcraft and high quality raw materials. Original Portuguese brands were an asset much sought-after by investors, as their unrealized potential promised high future returns. After the acquisition of Ach. Brito, Ricardo Cunha-Vaz, partner of Menlo Capital, bet on Claus Porto to have the greatest potential for growth. At the time of the deal in 2015, Claus Porto had a revenue of €1.5 million (Exhibit 12).

In 2015, the brand Claus Porto had 306 SKUs (stock keeping units), i.e. product references, within its six collections: Deco collection (19 lines), Classico soaps (21 lines), Agua de Colonia collection (6 lines), the men's grooming range Musgo Real (6 lines), and Floral and Violet soaps (Exhibits 13-18).

3. The migration from premium to luxury

What is luxury?

Renowned luxury marketing specialists Kapferer and Bastien (2012, p. 47) have compiled six criteria that define luxury (cf. Kapferer, 1998; Barnier, Falcy & Valette-Florence, 2012):

- "a very qualitative hedonistic experience or product made to last;
- offered at a price that far exceeds what their mere functional value would command;
- tied to a heritage, unique know-how and culture attached to the brand;
- available in purposefully restricted and controlled distribution;
- offered with personalized accompanying services;
- representing a social marker, making the owner or beneficiary feel special, with a sense of privilege."

These criteria are prerequisite for luxury; however, their individual weights differ according to the characteristics of the product, brand and sector. Together, they combine the two defining facets of luxury, "for oneself (reward) and for others (appearance, sign of power)" (Kapferer, 2015, p. 131). Consequently, the duality of luxury consists of the 'substance' and 'status' (da Silveira, 2017; Exhibit 19). The *substance* of a brand provides individual pleasure and consumer experience, and thus fulfills an individual function by "providing a very personal sense of satisfaction" (Chevalier & Gutsatz, 2012, p. 4). The *status*, or symbol, on the other hand, characterizes luxury as a social statement, the user's dream of prestige towards others, fulfilling a social function. According to

Chevalier and Gutsatz (2012), "ultimately luxury is always about status. […] providing customers and clients with status, directly or indirectly, in whatever form or shape" (p. 5).

What is a luxury niche brand?

According to Dalgic and Leeuw (1994), niche markets have developed as "[n]ew demands, changing customer motivations and further individualization […] have created a multitude of diverse and fractured markets" (p. 43-44). While niche marketing strategy and the characteristics of niche markets have been defined in literature, a common definition for 'niche brands' is lacking. Contrary to mass market brands, niche brands are "small [market] share brands with high loyalty" (Jarvis & Goodman, 2005, p. 292), which means that they have relatively low levels of recognition, brand awareness and market share, but are 'loved' and purchased once consumers get to know and appreciate them.

Luxury niche brands are characterized by extraordinary quality, rarity, restricted distribution, and an exquisite service offering. They cater to consumers with "a distinct set of needs [who] will pay a premium to the firm that best satisfies their needs" (Kotler, 2001, p. 145). Rather than engaging in expensive marketing campaigns, they focus on quality, exclusivity, uniqueness and tailored services. Luxury niche brands' targets are wealthy consumers who have everything already and are looking specifically for the rare, hard to obtain, expensive, and superior (Kapferer, 2012; da Silveira, 2017). In the fragrance market, "[t]he biggest winners are the niche brands, providing a good experience, and brands that come with strong new launches in the high-end," according to the market research firm NPD Group (Shannon, 2017).

The difference between premium and luxury

According to Kapferer (2012), the main difference between luxury and premium is that luxury needs both substance and status, while premium is predominantly based on substance. Whereas premium means that a product is superior in comparison with other products in the same category – i.e. it is objectively the 'best' product in the category – luxury is superlative and beyond comparison (Kapferer & Bastien, 2012). For premium products, product and service features are developed according to the consumer's needs, while for luxury, they are defined by the artistic director and/or creator. Luxury goods refuse comparison and shape future tastes. Therefore, price and functional quality are not correlated. For premium products, however, a superior quality is reflected by a premium price, so price and function are correlated (Kapferer & Bastien, 2012).

Advantages and aspects of becoming luxury

Why should a brand become luxury? For once, luxury is universally fascinating to everyone, and even touches the most rational managers and financial analysts (Kapferer & Tabatoni, 2011). Kapferer and Bastien have identified several aspects of becoming luxury (2012). First, luxury can be incredibly profitable; if the brands make profits, they can be substantial with uncommonly high return on investment. Second, especially small brands can benefit from becoming luxury, as a "[s]mall initial size is not a disadvantage […] and can even be an asset" (p. 326). Third, if the brand has the power to create as much desire as to be a social signifier and to have a substantial dream aspect, a luxury strategy is right for this brand. Fourth, a luxury strategy is desirable if the brand's products are produced with rare materials.

According to Bernard Arnault, founder and CEO of Moët Hennessy Louis Vuitton (LVMH), "Luxury is the only sector that can provide luxurious margins" (Kapferer & Tabatoni, 2011, p. 1). Thus, luxury brands provide more financial stability for the company due to a higher price point and consequently higher margins. Further, "the luxury business is a kind of jackpot business […] those that are profitable become extremely profitable" (Chevalier & Mazzalovo, 2012, p. 31). Consequently, a solid financial situation allows luxury companies to stay in the market longer than premium firms (da Silveira, 2017). The luxury brand life cycle is comprised of launch, growth, maturity, decline, and relaunch (Chevalier & Mazzalovo, 2012). Many luxury brands, such as Chanel and Hermès, report continuous sales growth, especially after relaunches. Financial strength results in the ultimate creative freedom of luxury: There is no limit for the art director's and designer's creativity, and luxury can become art (da Silveira, 2017).

Migrating from premium to luxury

Consumers prefer luxury brands that have always been luxury. If a brand was not born luxury, consumers do not easily believe in the dream that young luxury brands aim to create. Arguably, the mystery adherent to luxury products is hard to achieve if it has not always been there. Stepping from premium to luxury is, in fact, much more difficult to achieve than creating a luxury brand from scratch. As "[l]uxury is not 'premium at its best', [it is] impossible simply to 'trade up' from premium to luxury" by raising prices (Kapferer & Bastien, 2012, p. 42).

The reason for this difficulty is that premium brands lack the status that luxury brands have. Therefore, in order to become luxury, premium brands need to acquire status, which involves complex processes. First, the product needs to be successfully elevated from a comparable and objectively 'better' product to a product beyond comparison. Second, the brand needs to adjust its distribution strategy, and third, create new PR tools, including desirable and glamorous offline and online events.

Distribution. Luxury brands' desirability is very much based on their rarity (Kapferer, 2012) and exclusivity (Chevalier & Gutsatz, 2012). Typical luxury consumers looking for the rare and hard-to-obtain are unlikely to desire a brand formerly widely available. In addition, luxury brands require different distribution channels and points of sale than premium brands. In luxury, the brand does not sell, it gets bought. Therefore, the distribution should be restricted to the retailers who agree to create the right conditions for this positioning.

PR. In order to acquire status, luxury brands should not only communicate to their actual target consumers, but aim at universal recognition. That way, a luxury brand can fulfill its social function by serving as a social marker. Most importantly, the communication strategy should feed the dream the luxury brand is based on, and show a glimpse of the brand's mystery. A luxury brand should not advertise to sell, but to gain awareness and shape future trends (Kapferer, 2012). Public relations should carefully select suitable media channels, which enhance the brand's image through their own brand, content and communication style. In addition, elegant, exclusive events restricted to a select few "reward [the consumers] for being real connoisseurs, not simply fans" (Kapferer, 2015, p. 120). Glamorous invitation-only events are the epitome of experiential luxury.

4. Characteristics and trends in the global luxury industry

The luxury market

"[T]he 'luxury sector' is a macroeconomic entity comprised of heterogeneous companies and products, only a few of which follow a luxury strategy" (Kapferer, 2014, p. 371), meaning that only few companies follow true luxury paradigms rather than premium strategies. As there is no universal definition of the luxury market's scope, most researchers employ different characteristics to classify luxury products and services. Therefore, the luxury market is hard to quantify, and numbers and estimates vary across different studies.

According to Bain (2017), the worldwide market for personal luxury goods was €262 billion in 2017. Europe was the key region for luxury sales in value, with a growth rate of 6% and €87 billion in retail sales, followed by €84 billion in North and South America. China's sales grew by 15% to reach a local market size of €20 billion. In 2017, 32% of global personal luxury purchases were made by Chinese nationals (Exhibit 20). Compared to 50% in 2016, 65% of brands experienced growth in 2017 (Bain, 2017). Average profitability was high in 2017, with around 19% of operating profits. In 2017, Bain estimated a growth rate of 4-5% in the following three years, with the personal luxury market reaching €295-305 billion by 2020.

According to Deloitte (2017), nearly 50% of global luxury purchases were realized by travelling consumers, either in a foreign market (31%), or at the airport (16%). 60% of luxury purchases by consumers from emerging markets were realized while travelling. According to Bain (2017), Europe depends on tourism for approximately 50% of luxury sales, and Chinese consumers purchase everywhere in the world (Exhibit 21).

The new luxury consumer

Millennial consumers are challenging the luxury market. "It's an interesting time in the world of luxury – the millennial state of mind has changed the way purchases are made across generations and has pushed luxury brands to redefine what they deliver to customers," said Bain partner Claudia D'Arpizio. "For brands that manage to get this right, there is significant potential growth in the market for personal luxury goods in the years ahead" (Bain, 2017).

Experiential luxury. This trend results in consumers emphasizing the experience rather than the tangible product per se. Intangible qualities of luxury goods play an increasing role. According to Deloitte, "Status has now become less about 'what I have' and much more about 'who I am': more ethical, tasteful and discerning" (2017, p. 7).

Digital connectedness. New luxury consumers expect digital and social accessibility of luxury brands and "look for a full-fledged experience that embeds itself into their lives" (Chevalier & Gutsatz, 2012, p. 248). Luxury brands need to create a seamlessly integrated offline and online luxury experience that consumers can share with their community on social media. Smartphones play a crucial role as "the mobile web has specific functions such as location awareness, immediacy, personalization, voice capabilities, and social connectivity: It is about action and connection" (p. 248). According to Kapferer (2015), "Managing this community worldwide means leveraging members' innovativeness, eliciting their will to share their own stories and exchange within the community" (p. 120). According to BCG (2017), 72% of true luxury consumers interact with luxury brands on social media, predominantly Facebook, YouTube and Instagram. Word of mouth, including physical word of mouth, social media and online blogs, became the new number one influence lever on luxury consumers in 2016, having overtaken magazines (Bain, 2017).

Customization and personalization. Consumers' expectations of the luxury industry have changed. 45% of consumers surveyed by Deloitte (2017) expected personalized products and services, and 44% expected loyalty rewards in the form of gifts. According to BCG, 18% of consumers in 2016 thought customization to be relevant when purchasing luxury, compared to 13% in 2013. Preference for customization, however, depends on country of origin. On average, 22% of consumers from Italy, France, Russia, Brazil and China hold customization for relevant when purchasing luxury. The most valued elements of customization are bespoke products, product configuration and service (Bain, 2017).

Beauty online. The luxury beauty segment was growing, "reflecting a redirection of luxury spending away from goods and toward personal pampering and experiences" (Bain, 2016). Beauty brands were especially driving online sales, accounting for 9.2% online luxury penetration in 2016 (McKinsey, 2017). Beauty brands have attracted consumers to buy online by launching creative online approaches. As a result, consumers purchase luxury beauty brands online twice as much as mass market beauty brands, according to A.T. Kearney (Parisi, 2017).

The luxury distribution model

"If you control your distribution, you control your image," said Bernard Arnault, President of LVMH (Chevalier & Gutsatz, 2012). While luxury brands traditionally want to control distribution as much as possible, their future growth will be determined by their ability to successfully integrate online and offline channels into an omnichannel distribution (Bain, 2016; Exhibit 22).

Omnichannel. Online and offline channels today are complements to each other: online defines offline, and offline defines online. According to McKinsey, 78% of sales were influenced by the online in 2016 (Exhibit 23). On the other hand, ostentatious flagship stores in the world's fashion capitals and other physical retail experiences undeniably influence online shopping. Consequently, a successful luxury distribution model is emerging through the integration of the elements of own retail stores, wholesale, shop-in-shop concepts, department store counters, travel retail, own e-commerce, and third party multi-brand websites.

Physical luxury retail. According to Bain, the retail channel reported a growth rate of 8% in 2017, 3% of which resulted from new-store openings. Mono-brand stores dominate brick-and-mortar (Deloitte, 2017). "The role of the store is definitely changing. The growth of the online channel […] doesn't mean stores have lost their purpose – brands need to reinvent them to create an ongoing engagement with customers that transcends channels," said Bain partner Federica Levato (Bain, 2017).

Luxury e-commerce. There are three types of luxury e-commerce. First, there are mono-brand online stores focusing on one brand only, belonging to the brand's parent company. Second, department or concept stores' websites provide a similar offering than the physical shops. Third, a group of online luxury pure players has developed, which are specialist multi-brand online shops that engage solely in e-commerce and do not operate physical shops. According to Bain, online sales grew by 24% to €23 billion in 2017. Almost half of online sales were realized in the US market, while Europe and Asia grew strongly. The number of own-brand websites was growing and made up 31% of sales in 2017. Entering a dialogue with luxury consumers through customized online content presented both a challenge and an opportunity. According to Deloitte, large online pure players managed to increase their importance, while most well-known luxury brands have begun to invest substantially in their own e-commerce channels. McKinsey (2017) accounted for 8% of luxury sales having been realized online in 2016, and expected 19% of luxury purchases to move online by 2025 (Exhibit 24). The most influential online luxury pure players are Yoox Net-A-Porter Group, which holds Net-a-Porter, Mr Porter, Yoox and The Outnet, followed by Farfetch, Gilt, My Theresa, Matches Fashion, Luisa Via Roma, and Stylebop (Exhibit 25).

5. Increasing Claus Porto's substance and status: Phase I (2015-2017)

Overall strategy

In Phase I of the business plan, from mid-2015 to the end of 2017, the team took major steps to turn Claus Porto into a global luxury niche lifestyle brand. First, the brand needed to become luxury, with the appropriate product portfolio, visual identity and distribution strategy of a true luxury brand. Second, it was required to turn lifestyle by introducing products that were not only cosmetics and fragrances, but lifestyle and home objects. What did the Claus Porto team do to achieve these objectives?

The migration strategy was grounded on the two key elements of luxury, substance and status. In order to increase Claus Porto's *substance*, the portfolio, visual identity and packaging design needed to be reworked. Claus Porto's *status* was to be increased by altering the distribution and commercial strategy, and communication and public relations approach.

Enhancing substance

Portfolio changes and new product development

Fragrances. Francisco and Ricardo engaged the British master perfumer Lyn Harris to create new unique fragrances for Claus Porto and revisit the fragrances of the existing lines. Lyn's expertise as a master perfumer as well as her love for natural ingredients and her spiritual closeness to nature made her the perfect match for Claus Porto. "For Claus Porto, I analyzed the existing scents and consequently changed them to become unique, sophisticated and rich," she said. "The products needed to become able to tell the exceptional story of Claus Porto's history through their fragrance." Lyn renewed most Deco products, giving them a more unique olfactory character, and only kept the soaps like they were. For Claus Porto's 130 years anniversary, Lyn created 'Le Parfum' (Exhibit 26), a fragrance based on the unique natural scents of Portugal and limited to 1887 units as an homage to the brand's birth year. The launch video (Exhibit 27) told the story of an inspirational road trip through the Portuguese countryside with the purpose of finding the ingredients and scents for 'Le Parfum'. "There's a mystery here, I can't explain it," said Lyn. "I was feeling it when I first came to Portugal, for there's a real mystery in the air." The triangular flacon was inspired by a historic iconic fragrance bottle of Claus Porto. 'Le Parfum' was sold only in 'Le Grand Musée du Parfum' in Paris, and in Claus Porto's own stores and e-commerce.

Formulations. The formulation determines the products' haptic qualities, its characteristics of touch, and its ability and degree of cleaning or hydrating the skin and settling into it. Danielle Mota, Claus Porto's Head of Regulatory Affairs and Quality Assurance, worked on the product formulations. The remake of the products was a complex 360 degrees endeavor involving the testing and re-engineering of all product formulations and scents.

Consequently, the Deco collection was reduced from nineteen to ten lines. The six Musgo Real lines were reduced to four. The Classico collection's former 21 wax-sealed soaps were reduced to 16. New introductions were the Deco and Classico notebooks, the soap dish, the Musgo Real leather vanity bag, and 'Le Parfum'. By the end of 2017, Claus Porto had reduced its SKUs from 306 to 165, reformulated 65 SKUs (40%), increased the price point by more than 20%, and more than doubled the lifestyle and fragrance SKUs from 12 to 28 (Exhibits 28-30).

Packaging and visual identity redesign

Francisco and Ricardo contracted Anne-Margreet Honing, a Dutch-French artist and designer, as the new Art Director. She entered the scene in 2015 to revisit Claus Porto's visual brand identity. For her, the biggest challenge was to gather all different patterns and collections under one strong identity: "The game is keeping the true personality and the art work and, at the same time, adding a distinctive line that helps the brand compete and be easier to recognize on markets that are already overloaded." In contrast to young brands, however, Claus Porto had the advantage of 130 years of history curated in rich archives, from which Anne-Margreet took historical motifs in order to create the new Claus Porto visual brand identity (Exhibits 31, 32).

With regards to the Deco collection, Anne-Margreet left the packaging and shape of the soaps exactly like they were. However, she redesigned the packaging of the remaining Deco products (Exhibit 33). The visual identity and packaging design of Musgo Real, the men's range, was reworked by designer Eduardo Aires. While keeping the overall brand image and its vintage identity, he modernized the logo, typography, and product appearance (Exhibit 34).

Enhancing status

Commercial strategy and distribution

"In order to reposition Claus Porto as a luxury brand, we needed to restrict distribution systematically as well as relentlessly," said Nádia Adria, the Head of Sales. Consequently, the team reviewed all contracts with distributors in Portugal and worldwide, and terminated most of the contracts. The brand had to be exclusive and available only in the right places with the right positioning. In Portugal, its country of origin, Claus Porto was expected to be especially strong and well-positioned in order to establish credibility with local and international consumers. The presence in the home country had to be well-thought out and executed. In order to achieve a strong position at home, Ricardo and Francisco decided to open own stores.

The first Claus Porto store was opened in September 2016 in Rua da Misericórdia, Chiado, in central Lisbon (Exhibit 35). The tiled building had housed a pharmacy for decades, from which the upper floor of the Claus Porto store inherited dark wooden cabinets and glass vitrines lining the walls, crowned by a white stucco ceiling featuring geometric forms and botanical elements. In June 2016, Claus Porto opened a flagship store in Porto's main shopping street Rua das Flores (Exhibit 36). Together with the Lisbon store's architect João Mendes Ribeiro, the team poured all its enthusiasm and love for the brand into the creation of the airy three-floor store and museum, based on materials sourced from Portugal. The beautifully tiled ground floor was the point of sale, with a gigantic custom-made marble sink in the rear part where consumers could sample the liquid soap and get hand cream massaged into their hands. The second floor featured an affectionately curated exhibition of the brand's history with a rich display of historic photographs, documents and products (Exhibit 37).

Claus Porto's own stores realized approximately 75% of their sales with foreigners and 35% with Portuguese consumers (Claus Porto company data). Besides the two own stores, the brand partnered up with 'A Vida Portuguesa' (Exhibit 38), a popular Portuguese vintage home and lifestyle boutique with four stores in Lisbon and one in Porto. Claus Porto was also available in travel retail at the Lisbon, Porto and Madeira airports. However, apart from these collaborations, the termination of distributor contracts led to a removal of Claus Porto products from all other points of sale in Portugal. At the same time, Claus Porto's hotel amenities (Exhibit 39) line was introduced in selected 5-star luxury and boutique hotels in Portugal.

Francisco personally took care of the business development in the US and UK markets. In the UK, he achieved listings with luxury department stores Harrod's and Liberty London. In the US, he oversaw Claus Porto's introduction into luxury department stores Neiman Marcus, Bergdorf Goodman, and Nordstrom, where the brand was enlisted in the home departments.

In the emblematic French market, a suitable agent with experience in niche brands started to represent the brand. Following the launch of 'Le Parfum' in October 2017, Claus Porto entered the selective Parisian luxury department store 'Le Bon Marché' with a personalized pop-up space in November (Exhibit 40). In addition, Claus Porto set up shop in '#Beautysta', the new beauty branch of the premium department store 'Printemps' in Paris.

E-commerce strategy

Daniel Vieira, an analyst at Menlo Capital, was appointed to lead Claus Porto's e-commerce strategy and was responsible for both Claus Porto's own online shop (Exhibit 41) and the online pure players, which are multi-brand shops that solely conduct e-commerce and lack physical stores. "Partnerships with the major luxury e-commerce retailers are crucial for both our sales numbers and to establish Claus Porto in the luxury segment," Daniel said. In September 2017, Claus Porto enlisted with online luxury fashion and lifestyle imperium 'Net-a-Porter' and quickly became so successful that it was included within the website's Christmas gift suggestions and in the prestigious 'Net-a-Porter' printed gift catalogue (Exhibits 42, 43). Apart from selecting the right online partners for Claus Porto and establishing relationships with luxury editors and buyers, Claus Porto's own e-commerce needed to gain traction. One of Daniel's first projects was to optimize the brand's own mail-order processes. With Claus Porto lacking any predisposition or experience in shipping gift-wrapped orders direct-to-consumer, Daniel had to start from scratch to turn the brand's shipping processes into a luxury experience from the moment of receive.

Public Relations and Events

The world needed to get to know the transformed Claus Porto. Maria João Nogueira Mendes, Claus Porto's Head of PR and Communications, masterminded an integrated online and offline communication strategy that created buzz and positioned Claus Porto in the luxury segment. Francisco and Ricardo decided that Claus Porto would not engage in traditional paid marketing but only go for earned media coverage. Maria João's long experience in public relations of cosmetics brands was a real asset to the brand in order to elegantly communicate its relaunched brand identity, its revisited visual appearance, and its improved product portfolio. Maria João organized sophisticated press events with journalists, magazine editors, bloggers, influencers, and other VIPs (Exhibit 44). Her efforts culminated in various relevant articles in the media, such as in TAP Magazine, The Financial Times 'How To Spend It', Monocle, Time Out (Exhibit 45), and many more, and the organization of the grand launch event of 'Le Parfum' in 'Le Grand Musée du Parfum' in Paris. In addition, the Claus Porto 130 years anniversary book was launched in November 2017 (Exhibit 46). The beautiful hardcover edition held a rich display of the brand's lithographic artworks, historic photographs, and previous products. It soon turned out that consumers, old and new fans alike, took a profound interest in the brand's history and wanted to buy the book on the spot.

Financial results

By the end of 2017, Claus Porto was forecast to realize €2.6 million in sales: €1.5 million from wholesale, €760k from own retail, €130k from e-commerce, and €180k from amenities and travel retail (Exhibit 12). In October 2017, the brand realized the highest sales ever reported in the brand's history.

6. Next steps: Phase II (2018 onwards)

Between 2015 and 2017, Francisco and Ricardo had implemented fundamental changes within the company and the brand, and achieved first successes together with their team. Phase II was about to start. Where should they take Claus Porto next to strengthen its luxury positioning?

PART B: Teaching Note

1. Case synopsis

Claus Porto is a Portuguese soap and fragrance brand founded in 1887 by the Germans Ferdinand Claus and George Schweder in Porto under the name of 'Claus & Schweder', nicknamed 'Claus'. After having been nationalized during WWI, the 'Claus & Schweder' brand was bought by Achilles de Brito's soap company Ach. Brito in 1924 and was renamed 'Claus Porto'. In 2017, Ach. Brito was holding the three brands Ach. Brito (mass market), Confiança (middle market), and Claus Porto (premium/luxury market), known for the outstanding quality of its soaps and its unique product packaging artworks bearing Belle Époque and Art Deco designs.

In 2015, the Portuguese investment firm Menlo Capital acquired the majority share of Ach. Brito with the main goal of capitalizing on the potential of the brand Claus Porto. From 2015 to 2017, the brand undertook efforts to step from premium to a global luxury niche lifestyle brand. This relaunch of a Portuguese heritage brand rich in history and expertise came at a time when Portugal's global image was improving after a severe economic crisis. Few Portuguese brands were known on a global scale, and even fewer Portuguese luxury brands, if any, as Portugal had no reputation as a country of origin of luxury brands, like France or Italy. However, in 2015 the time seemed to be right to venture into luxury territory, as Portugal was shedding its image as a traditional production country and was improving its credibility as a source for precious materials, expert craftsmanship and fine design.

From 2015 to 2017, Claus Porto's migration from premium soap to luxury lifestyle brand encompassed an update of its product portfolio, a re-design of its visual identity, product packaging and brand communication, a change in distribution strategy and the start of its e-commerce. Phase I of the business plan was completed at the end of 2017, when Claus Porto had successfully entered a selection of luxury points of sale and culminated its efforts by launching the limited-edition fragrance 'Le Parfum'. After the conclusion of Phase I, the brand needed a powerful strategy to pursue its repositioning in the luxury market in Phase II of the business plan, from 2018 onwards. The present case is a basis for discussion of what Claus Porto should do in the second phase in order to strengthen its luxury positioning.

2. Pedagogical objectives and intended use of the case study

The present case is intended to be used in graduate, MBA, or executive classes. It fits particularly well with courses in Luxury Marketing, Luxury Management and Luxury Distribution, or as an illustration of a luxury niche brand strategy in a general Marketing Management course.

This case serves as a basis to analyze the current and future luxury market and the potential of a local luxury niche lifestyle brand. It presents an example on which to base a discussion of the peculiarities of the luxury market, the distribution of luxury goods and positioning strategies, product range and portfolio management, luxury marketing and brand communication. In addition, it can serve as a basis for discussion on the image transformation of a country initially perceived as a production country.

The case of Claus Porto explains both the strategies and changes that have already been implemented, and provides the basis for discussion of what the company should do next. Therefore, students can learn from Claus Porto's previous actions and decisions, and then discuss the future strategy based on the context and the information provided.

The analysis and discussion of the case will enable students to:

1. Discuss the peculiarities of the global luxury market as well as new trends in luxury.
2. Identify the new expectations of the emerging luxury consumer, such as substance, personalization, digitalization, and omnichannel approach.
3. Outline the difference between luxury and premium, the advantages of a luxury strategy, and why it is especially difficult to migrate from premium to luxury.
4. Analyze success factors of luxury niche brands.
5. Understand how the reputation of the country of origin might affect a luxury brand.
6. Gain insights into how a brand from a country without luxury image can become luxury.
7. Identify an appropriate strategy for future growth with potentially interesting markets and adequate measures and actions.

Therefore, the key learning points of the case are:

- How a small local brand can manage the challenge of migrating from premium to luxury and what it can do to succeed.
- The new luxury consumer is demanding new benefits including a new type of status, defined as personalization rather than standardization, and an omnichannel approach that seamlessly integrates the online and the offline. Niche brands have great potential to serve the new luxury customer successfully.
- A repositioning strategy from premium to luxury is a difficult endeavor and requires a 360° turnaround: a clear brand identity, a unique visual identity, a strict selection of the distributors by radical restriction of points of sale and the opening of own stores, a carefully improved and curated product portfolio, the adaption of brand communication and communication channels, and the offer of additional services.

3. Suggested questions for discussion

1. What opportunities does Claus Porto have upon entering Phase II of its repositioning?
2. What challenges is Claus Porto facing upon entering Phase II of its repositioning?
3. What do we learn from this case on how a small local premium brand can migrate to a global luxury niche lifestyle brand?
4. What should Claus Porto do next?

4. Discussion

1. What opportunities does Claus Porto have upon entering Phase II of its repositioning?

Characteristics of the new luxury consumer. Due to new trends in the luxury market and strong growth potential in the global luxury industry, Claus Porto's repositioning strategy came at the right time. The perception of luxury was changing towards millennial consumers, who increasingly valued substance and a more authentic sense of status by emphasizing a brand's history and superior craftsmanship instead of an ostentatious display of wealth (e.g. Bain, 2017). At a time of abundant offerings, an authentic and clear brand identity and a credible and rich history were perceived as valuable. In addition, as the majority of production sites had been shifted to cheap labor countries, the desirability of handcrafted and expertly manufactured items increased yet again. Over all, the trend of experiential luxury and the revalorization of traditional values such as family, history, expertise, uniqueness and art provided growth potential to Claus Porto as a luxury niche lifestyle brand.

Popularity of niche brands. Niche brands offer the new luxury consumer a particular non-mainstream luxury by providing unique intangible benefits that big brand names may have more difficulty to achieve. The established luxury retailers and department stores as well as new expertly curated luxury online pure players (e.g. 'Net-a-Porter') took great interest in finding new niche brands with their own hidden history, as these unique brands provided the retailers with the opportunity to differentiate themselves. Margins and growth potential of niche brands were promising, and the research firm NPD Group advocated niche brands as the winners of the fragrance industry (2017). According to John Demsey, Executive Group President of Estée Lauder Companies, "Niche is the new normal" (Shannon, 2017).

Significance of a lifestyle brand. The shift to a lifestyle brand presented an additional opportunity for Claus Porto. Lifestyle brands offer the experience of a certain way of living associated with the brand, condensed in a unique brand image. "What sets the most successful lifestyle brands apart is that they tend to offer a distinct experience […]. This allows them to control the retail experience and provide the customer with a singular, concrete brand image—something of symbolic value to the customer" (Weinswig, 2016). The lifestyle image of Claus Porto evokes pictures of the beautiful Portuguese landscape, a land of warm sun, white beaches and the endless sea, with the soft breeze carrying the unique scents and fragrances of earth and nature. Claus Porto's unique heritage and story invited to develop the product portfolio towards the lifestyle direction, adding personal care accessories and home decoration objects in tune with the historic brand identity. As a lifestyle brand, Claus Porto could carry a broad product assortment and draw from Portuguese manufacturers' abundant expertise of producing high quality lifestyle items, such as candles, ceramics, and interior design objects from beautiful natural materials.

Increasing credibility of Portuguese quality. According to Kotler and Gertner, "A country's image results from its […] history" and "[c]ountry images, or knowledge structures related to places, […] are commonly used as short-cuts for information processing and consumer decision heuristics" (2002, p. 251). Therefore, the country of origin carries a certain image in itself and can enhance or undermine a brand's credibility. For some time, Portugal was seemingly forgotten at the edge of Europe, struggling to get back to its feet after an economic crisis. Around 2015, Portugal, among other Southern European countries, managed to attract a different kind of traveler who was looking for an authentic personal experience. The old image of Portugal as a production country expanded into the image of a country of innovation. Capitalizing on its ability to produce for the big luxury companies, Portugal started to manufacture luxury products under Portuguese names, and luxury products from Portugal were starting to gain credibility.

2. What challenges is Claus Porto facing upon entering Phase II of its repositioning?

Portfolio management. While at first most of the portfolio did not meet luxury standards in terms of quality of the formulations, textures and fragrances, Claus Porto had always had extraordinary high-quality soaps. Therefore, soaps were Claus Porto's natural flagship product, as their luxury quality had been unchanged since its foundation. However, soaps presented a challenge to luxury distributors, as low-price SKUs generated low margins while occupying a large proportion of shelf space. It was difficult to establish a luxury image for soap at a relatively low price, and to expand the brand with higher-price brand extensions. In line with this, "managing luxury consists in managing the aura of the brand over time. […] the challenge is to create new products within the brand but without losing brand's aura" (Dion & Arnould, 2011, p. 2).

Distribution strategy. As Claus Porto was a premium brand when it was acquired by Menlo Capital, its distribution needed to be restricted by terminating the majority of distributor contracts. Next, Claus Porto needed to find the right partners with the right positioning and distribution network. However, only recently having turned luxury, it was challenging to convince luxury distributors to admit an unknown brand to their portfolio. On the other hand, with growing popularity and especially after the successful first results with 'Net-a-Porter', Claus Porto was in demand with distributors, retailers and e-commerce businesses. The Claus Porto team was faced with balancing the careful selection and strategic refusal of requests.

Organization of department stores. The traditional organization of department stores according to thematic sections proved to become challenging for Claus Porto's lifestyle brand positioning. Creams and fragrances fitted well into the cosmetics department, while candles and diffusors could be displayed in the home segment, and the soaps could be put into the bath section. The standard organization of a department store made a clear lifestyle positioning difficult, so the respective buyers were reluctant to take on Claus Porto's whole product range. At the same time, the Claus Porto commercial team was faced with multiple negotiations with the different buyers of each department.

The US market. Thanks to the efforts of the former distributor and the endorsement by talk show host Oprah Winfrey in the 1990s and early 2000s, Claus Porto was a well-known and well-liked premium brand in the American market. The US was Claus Porto's main market and the only one with considerable brand awareness, which made a repositioning and shift from premium to luxury especially challenging. As the partnership with the former American distributor had been terminated, the American market proved difficult to penetrate due to a lack of connections within the market. In addition, the US, a country of department stores, was prone to struggle with the difficulties of the organization of department stores mentioned above.

Digital channel. According to McKinsey (2017), 8% or €20 billion of global luxury sales were realized online in 2016. 78% of sales or nearly €200 billion were influenced by the online. In 2017, McKinsey forecasted 19% of global luxury sales moving online by 2025. In order to effectively address the new luxury consumer, Claus Porto was in need of a successful omnichannel approach, including a strong digital presence. The small traditional brand had little experience with digital communication and e-commerce, and meeting the digital consumer eye to eye was a big challenge. The own e-commerce needed to gain traction, while the right third party online shops needed to be identified for each geographical market. In addition, the digital communication channel needed to be shaped via social media channels, influencer endorsements, and magazine websites.

Image of Portugal. Especially for older generations, Portugal had an image of a country of production and cheap labor. Although many well-known brands, among them luxury, had production facilities in Portugal, hardly any famous brands voiced their Portuguese origin. Therefore, Portuguese craftsmanship was underrated and little known, despite a multitude of superior quality products leaving the country to be sold under famous names. Portugal as a country of origin was both an opportunity and a challenge.

Born premium. Possibly the biggest challenge of all was the fact that Claus Porto was not born luxury, but premium. It was extremely challenging to move a premium brand to luxury, as consumers and distributors knew the brand as premium and only reluctantly changed their attitude and behavior. The brand performance had to be extremely convincing and the brand elements needed to be substantially altered in order to be perceived as luxury. There were manifold tales of premium brands failing to step up to luxury successfully, and Claus Porto could not risk being one of them.

3. What do we learn from this case on how a small local premium brand can migrate to a global niche luxury brand?

History. Claus Porto capitalized on its unique history and built its aura from the charismatic tale of its founders Ferdinand Claus and George Schweder up to the modern story of Aquiles de Brito's family. Tenderly curated, the historic photographs, documents and products were the most valuable assets to the brand, without which it could not exist. The success of the 130 years anniversary book and the well-frequented exhibition in the Porto flagship store were evidence that the brand's story touched consumers' hearts. Claus Porto's history created the substance and intangible values of the brand and provided the foundation for its luxury positioning.

Mono-brand stores. Exercising full control over the brand image and showcasing the brand essence in its purest form in brand-owned stores was an essential part of Claus Porto's early success. Once the Lisbon store was opened, the repositioning efforts of the brand became visible and accounted for first financial successes, and led to the opening of the flagship store in Porto. The store openings provided a great opportunity to hold elegant events and receptions, and resulted in relevant online and offline media coverage. The stores were then included in new travel guidebooks (e.g. The Monocle Travel Guide), mentioned on travel blogs and tagged in Instagram posts and thus assured growing brand awareness outside of Portugal.

Distribution. As a luxury brand, Claus Porto's distribution strategy needed to excel. First, the brand had to be removed from middle market retailers. Second, it needed to reappear in the right places at suitable third party retailers, targeting the most promising markets of the US, the UK and France first. Later, after buzz-creating launches with prominent e-commerce retailers ('Net-a-Porter') and offline department stores outside of Portugal ('Le Bon Marché', 'Printemps' etc.), it needed to move into new markets.

Portfolio. Claus Porto's repositioning efforts started with the reorientation of its portfolio. Fragrances and formulas were changed, improved and elevated to correspond to a luxury positioning. After having done the homework, a big buzz around 'Le Parfum' positioned Claus Porto as a fragrance brand. Its repositioning really was about improving the whole product offering, and then launching a compelling innovation symbolizing the brand identity.

Timing. Claus Porto was an example that building a luxury brand takes time. Patience, timing, the right connections and a well-thought out and carefully planned strategy were crucial to success. The tight business plan could not be rushed: The luxury industry required the right steps to be taken at exactly the right time.

Luxury. Claus Porto needed to reflect what true luxury means and be very clear about being a luxury brand. Being luxury, not premium, impacted every decision. Taking into account the characteristics of the new luxury consumer was crucial in order to build a successful modern luxury brand. At the same time, luxury was the only way to go for Claus Porto. Having declined as a premium brand due to an unclear positioning without tapping into its own potential, Claus Porto's only option was to become a true luxury brand.

4. What should Claus Porto do next?

Raise prices. In order to strengthen its luxury positioning, Claus Porto should increase its prices. According to Kapferer and Laurent (2012), high intangibles are represented in the pricing power of luxury, and a product cannot credibly belong to the luxury category below a minimum threshold price. Therefore, Claus Porto will urgently need to raise the prices of its lowest-price products, the soaps. Furthermore, the overall average price should be increased, especially after the products' reformulation or remake.

Expand in the US. Due to substantial brand awareness and a high share of 'new luxury' consumers, who value substance over status, Claus Porto's most promising market was the US. The fallback that had resulted from the contract termination with the American distributor should quickly be caught up, and strong connections within the US market should be established. In particular, Claus Porto should open an own store in the US, e.g. in New York, and establish a local team tending directly to distribution and PR, locally exercising the greatest possible control over the brand image and experience.

Distribution. Further partnerships with third-party distributors should be found in online and offline retail. Additional stores could be opened outside of Portugal in order to prove Claus Porto's potential outside of its country of origin. Furthermore, the hotel amenities line should be distributed worldwide in global luxury hotels.

New markets around the world. New promising markets for Claus Porto could be Germany, China, Japan or the Middle East. Germany was a promising market with prominent luxury retailers in all major cities, such as KaDeWe in Berlin or Ludwig Beck in Munich. Chinese consumers' increased local purchasing and ever-growing appetite for luxury brands could result in the opening of a store in China. In addition, Claus Porto could have great potential with Japanese luxury consumers, as they especially value high-quality heritage brands from Europe. With growing demand for luxury brands in the Middle East's new luxury malls, this market could also hold potential for Claus Porto in the future.

Portfolio. In order to establish itself as a luxury brand and include high-margin SKUs, Claus Porto should boldly introduce high-priced products. The Agua de Colonia collection should be next to be revisited and strengthened. In a renewed collaboration, Lyn Harris could improve the Agua de Colonia fragrances and turn them into luxury scents. In addition, Claus Porto should work on its lifestyle image and introduce more lifestyle accessories, for instance bathroom items, home fragrance accessories, cosmetic bags, towels and cloths, sponges, massage tools, or hair care. Further lifestyle and home additions could strengthen the brand identity, e.g. blankets, cushions, ceramic dishes, and decoration or furniture objects made of wood and marble. Lastly, the full potential of the men's range Musgo Real should be realized through portfolio additions such as beard grooming products, shaving tools and accessories.

PR and events. True luxury brands distinguish themselves through exclusive events. Claus Porto could benefit from holding events with loyal consumers, VIPs, editors, bloggers and influencers at luxurious locations like boutique hotels or exclusive restaurants.

PART C: References and relevant literature

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PART D: Appendix